

CPI AEROSTRUCTURES INC
Form 10-K/A
April 29, 2016

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

Commission file number 1-11398

CPI AEROSTRUCTURES, INC.

(Exact name of registrant as specified in its charter)

New York 11-2520310
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

91 Heartland Blvd., Edgewood, New York 11717
(Address of principal executive offices)

(631)
586-5200
(Registrant's
telephone
number,

including
area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.001 par value	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b-2 of the Exchange Act).

Yes No

As of June 30, 2015 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the registrant's common stock (based on its reported last sale price on the NYSE MKT of \$10.01) held by non-affiliates of the registrant was \$77,727,039.

As of April 28, 2016, the registrant had 8,610,453 common shares, \$.001 par value, outstanding.

Documents Incorporated by Reference:

None.

EXPLANATORY NOTE

CPI Aerostructures, Inc. (the “Company” or “we”) is filing this Amendment No. 1 (the “Amendment”) to our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed March 28, 2016 (the “Original Filing”) to include the information required by Items 10 through 14 of Part III of Form 10-K. This information was previously omitted from the Original Filing in reliance on General Instruction G(3) to Form 10-K, which permits the information in the above referenced items to be incorporated in the Form 10-K by reference from our definitive proxy statement if such statement is filed no later than 120 days after our fiscal year-end. We are filing this Amendment No. 1 to include Part III information in our Form 10-K because a definitive proxy statement containing such information will not be filed by the Company within 120 days after the end of the fiscal year covered by the Original Filing. The reference on the cover of the Original Filing to the incorporation by reference of portions of our definitive proxy statement into Part III of the Original Filing is hereby deleted.

CPI AEROSTRUCTURES, INC.

FORM 10-K ANNUAL REPORT

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PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information About Directors, Nominees and Executive Officers

Our directors and executive officers are as follows:

Name	Age	Position
Eric Rosenfeld (1) (2) (4)	58	Chairman of the Board of Directors (non-executive)
Douglas McCrosson (1)	53	Chief Executive Officer, President and Director
Vincent Palazzolo Walter	52	Chief Financial Officer
Paulick (2) (3) (4)	69	Director
Kenneth McSweeney (2) (3) (4)	84	Director
Harvey J. Bazaar (3)	75	Director
Michael Faber (1) (3) (4)	56	Director
Terry Stinson (1) (2)	74	Director

(1) Member of strategic planning committee.

(2) Member of compensation committee.

(3) Member of audit committee.

(4) Member of nominating and corporate governance committee.

Our board of directors believes that it is necessary for each of our directors to possess qualities, attributes and skills that contribute to a diversity of views and perspectives among the directors and enhance the overall effectiveness of the board. All of our directors bring to the board leadership experience derived from past service. They also all bring a diversity of views and perspectives derived from their individual experiences working in a range of industries and occupations, which provide our board of directors, as a whole, with the skills and expertise that reflect the needs of the Company.

Certain individual experiences, qualifications, and skills of our directors that contribute to the board of directors' effectiveness as a whole are described in the biographies set forth below.

Harvey J. Bazaar has been a director since December 2006 and chairman of our audit committee since April 2007. A certified public accountant, Mr. Bazaar has spent most of his career in public accounting, having retired from PricewaterhouseCoopers in 2000 as the Global and Americas Leader for the Capital Markets Group. At Coopers & Lybrand, which merged with PriceWaterhouse to form PricewaterhouseCoopers, Mr. Bazaar served on the firm's Executive Committee and as Managing Partner of the New York City office. From September 2001 to December 2002, Mr. Bazaar served as the chief operating officer of DML Global Services, a company providing fund accounting and related services to private investment funds and other businesses. From December 2006 to August 2008, Mr. Bazaar served on the board of directors and audit committee of BKF Capital Group, Inc., an OTC Bulletin Board company, and served as its president and chief executive officer from November 2007 to August 2008. Beginning in July 2009, Mr. Bazaar began serving on the board of directors of various insurance entities that are part of the QBE Americas Group and in November 2009 was named chairman of the Audit Committee and in January 2014 was named a member of the Remuneration Committee of these entities. Mr. Bazaar holds a Bachelor of Science Degree from Kent State University and is a member of the board of trustees of the Kent State University Foundation. Mr. Bazaar brings to our board of directors an in-depth understanding of generally accepted accounting principles, financial statements and SEC reporting requirements as well as an extensive and diverse general business knowledge.

Michael Faber has been a director since August 2013 and chairman of our Nominating and Corporate Governance Committee since June 2014. Mr. Faber is a corporate executive, family office advisor, and attorney with over 20 years of experience investing in, operating and advising both large multi-national and emerging growth companies in a variety of industries. Since 1996, Mr. Faber has served as chief executive officer of NextPoint Management Company, Inc., an investment and strategic advisory firm, advising family offices on a variety of issues, including family office management, asset manager selection and oversight, direct investing and trust and estates. Additionally, Mr. Faber currently serves as a senior advisor to a family office with more than \$2 billion in assets, and a senior advisor to ff Venture Capital. From 1990 to 2008, Mr. Faber was a General Partner of the NextPoint and Walnut family of investment funds, focusing on private equity, venture capital and structured investments, where he managed three funds and invested in more than 90 companies. Previously, Mr. Faber was a senior advisor to Akerman Senterfitt, of counsel to the law firm of Mintz Levin, an attorney with the law firm of Arnold & Porter, and a senior consultant to The Research Council of Washington, the predecessor to The Corporate Executive Board Company. During his career, Mr. Faber has served on audit and compensation committees for a number of companies. Mr. Faber is an honors graduate and John M. Olin Fellow of the University of Chicago Law School and attended the Johns Hopkins University School of International Studies and the State University of New York. Mr. Faber brings to our board his legal expertise, as well as his years of investment and general business experience.

Douglas McCrosson was appointed as our Chief Executive Officer and President in March 2014. Mr. McCrosson joined the Company in 2003 as Director of Business Development. During his tenure, he has held positions of increasing responsibility, including Vice President of Business Development and Senior Vice President of Operations, where he headed CPI Aero's business development, engineering, procurement and manufacturing operations. Subsequently, he was promoted to the position of Chief Operating Officer in January 2010 before becoming President and CEO. He has 30 years of aerospace experience, having started his career as a mechanical engineer at Grumman Corporation, now Northrop Grumman. Mr. McCrosson holds a Bachelor of Science degree in mechanical engineering from the State University of New York at Buffalo and a Master of Science degree in Management from the New York University Polytechnic School of Engineering. He is a member of the Board of Governors of the Aerospace Industries Association, a trade association representing major aerospace and defense manufacturers and suppliers in the United States. Mr. McCrosson provides our board of directors with unique knowledge of the Company's business, operations and management and his other extensive experience in the Company's industry.

Kenneth McSweeney has been a director since February 1998. From April 2003 until June 2014 he served as the chairman of our compensation committee. Mr. McSweeney has been an independent consultant to the aerospace industry since January 1995. From 1961 to 1995, Mr. McSweeney served in various management positions for Northrop Grumman Corporation, most recently as the vice president of its Aerostructures Division and a director of business development for the Mideast and gulf coast region. Mr. McSweeney has extensive experience in aerostructures and logistics support products, as well as experience in the marketing, design, and manufacturing of aerospace products. Mr. McSweeney is a licensed professional engineer in New York State. He holds Bachelor and Master of Science degrees in Electrical Engineering from the Polytechnic Institute of Brooklyn and a Master's degree in Business Management from CW Post College. He also completed the Executive Development Program at the Cornell School of Business and Public Administration. Mr. McSweeney contributes to our board of directors with his extensive professional and business experience in the Company's industry.

Vincent Palazzolo has been our Chief Financial Officer since May 2004 and our Secretary since March of 2008. From December 2003 to May 2004, he was employed by J. H. Cohn LLP as an audit partner. From 1988 through November 2003, Mr. Palazzolo was employed by Goldstein Golub Kessler LLP ("GGK"), where he was an audit partner from September 1999 through November 2003. While employed by GGK, from September 1999 to November 2003, Mr. Palazzolo also served as a managing director of American Express Tax and Business Services, Inc. Mr. Palazzolo holds a Bachelor of Business Administration in Accounting from Hofstra University, is a certified public accountant and is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants.

Walter Paulick has been a director since April 1992. He served as the chairman of our nominating and corporate governance committee from March 2004 until June 2015 and as chairman of our audit committee from June 2006 until April 2007. Mr. Paulick is currently a self-employed real estate development consultant. From 1982 to November 1992, Mr. Paulick was a vice president of Parr Development Company, Inc., a real estate development company. From 1980 to 1982, Mr. Paulick was employed by Key Bank, where he last held the position of vice president. From 1971 to 1980, Mr. Paulick was a vice president of National Westminster U.S.A. Mr. Paulick holds an Associate degree in Applied Science from Suffolk Community College and a Bachelor of Business Administration from Dowling College. Mr. Paulick's background in banking, real estate development and general business knowledge

provides our board of directors with a diverse perspective on the Company's industry and conducting business in our region.

Eric S. Rosenfeld has been the non-executive chairman of our board of directors since January 2005 and a director and chairman of our strategic planning committee since April 2003. Mr. Rosenfeld has been the President and Chief Executive Officer of Crescendo Partners, L.P., a New York based investment firm, since its formation in November 1998. Prior to forming Crescendo Partners, he held the position of Managing Director at CIBC Oppenheimer and its predecessor company Oppenheimer & Co., Inc. for 14 years. Mr. Rosenfeld currently serves as a director for several companies, including Absolute Software Corp., a leader in firmware-embedded endpoint security and management for computers and ultraportable devices, Cott Corporation, a consumer beverages company and Pangaea Logistics Solutions Ltd., a logistics and shipping company that merged with Quartet Merger Corp., a blank-check company, for which he served as Chairman and CEO. Currently Mr. Rosenfeld serves as the Chairman and CEO of Harmony Merger Corp. a blank-check company. Mr. Rosenfeld has also served as a director for numerous companies, including Arpeggio Acquisition Corporation, Rhapsody Acquisition Corporation and Trio Merger Corp., all blank check corporations that later merged with Hill International, Primoris Services Corporation and SAExploration Holdings Inc., respectively. He also serves on the board of directors of Sierra Systems Group Inc., an information technology, management consulting and systems integration firm, Emergis Inc., an electronic commerce company, Hill International, a construction management firm, Matrikon Inc., a company that provides industrial intelligence solutions, DALSA Corp., a digital imaging and semiconductor firm, GEAC Computer, a software company Computer Horizons Corp., an IT services company and SAExploration Holdings Inc. Mr. Rosenfeld provides our board of directors with expertise in finance and financial markets and with experience derived from his service on the boards of other public and private companies.

Terry Stinson has been a director and the chairman of the compensation committee since June 2014. From January 2013 until May 31, 2014 he served as Executive Vice President of AAR CORP., an international, publicly traded aerospace manufacturing and services company, a position he has held. Mr. Stinson currently serves as an independent consultant to AAR CORP since May 31, 2014. Since 2001, Mr. Stinson has been Chief Executive Officer of his own consulting practice, Stinson Consulting, LLC, engaged in strategic alliances and marketing for the aerospace industry. From August 2007 until January 2013, Mr. Stinson served as Group Vice President of AAR CORP. From 2002 to 2005, Mr. Stinson served as Chief Executive Officer of Xelus, Inc., a collaborative enterprise service management solution company. From 1998 to 2001, Mr. Stinson was Chairman and Chief Executive Officer of Bell Helicopter Textron Inc., the world's leading manufacturer of vertical lift aircraft, and served as President from 1996 to 1998. From 1991 to 1996, Mr. Stinson served as Group Vice President and Segment President of Textron Aerospace Systems and Components for Textron Inc. Prior to that position, he was President of the Hamilton Standard Division of United Technologies Corporation, a defense supply company, since 1986. Mr. Stinson is currently a director of Lennox International Inc., company engaged in the design and manufacture of heating, ventilation, air conditioning and refrigeration products, serving on such company's Board Governance and Compensation and Human Resources Committees. Mr. Stinson previously served as a director of Triumph Group, Inc., a company engaged in the manufacturing and repair of aircraft components, subassemblies and systems, from September 2003 to March 2008. As a former senior executive of two Fortune 500 companies, Mr. Stinson contributes to our board his extensive management and marketing experience in the aerospace industry, as well as his general business acumen and experience developed by serving on other public company boards.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers, directors and persons who own more than ten percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. These reporting persons also are required by regulation to furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely on the review of the copies of these forms furnished to us and representations that no other reports were required during the year ended December 31, 2015, all Section 16 reports were timely filed by our officers, directors and greater than ten percent beneficial owners.

Code of Ethics

Our board of directors has adopted a written code of ethics that applies to our directors, officers and employees that is designed to deter wrongdoing and to promote ethical conduct, full, fair, accurate, timely and understandable disclosure in reports that we file or submit to the Securities and Exchange Commission and others, compliance with applicable government laws, rules and regulations, prompt internal reporting of violations of the code and accountability for adherence to the code. A copy of the code of ethics may be found on our website at www.cpiaero.com.

Board Committees

We have standing compensation, audit, nominating and corporate governance and strategic planning committees. Copies of our committee charters are available free of charge on our website at www.cpiaero.com.

Compensation Committee Information

Our compensation committee is comprised of Terry Stinson (chairman), Kenneth McSweeney, Walter Paulick and Eric Rosenfeld, each an independent director under the NYSE MKT LLC (“NYSE MKT”) listing standards. Our Compensation Committee is responsible for establishing the general compensation policy for our executive officers, including the chief executive officer; reviewing the compensation paid to non-employee directors and making recommendations to the board for any adjustments; administering our stock option and performance equity plans and determining who participates in the plans, establishing performance goals, if any, and determining specific grants and bonuses to the participants and ensuring that any compensation plan for key executives does not encourage undue risk-taking.

Our compensation committee’s report is included in this Annual Report under “*Item 11. Executive Compensation*” below.

Audit Committee Information and Report

Our audit committee is currently comprised of Harvey J. Bazaar (chairman), Michael Faber, Kenneth McSweeney and Walter Paulick. During the year ended December 31, 2015, our audit committee held seven meetings. All of the members of our audit committee are “independent directors”, as defined under the NYSE MKT listing standards and are able to read and understand fundamental financial statements, including a company’s balance sheet, income statement and cash flow statement.

Financial Expert on Audit Committee

We must certify to the NYSE MKT that our audit committee has, and will continue to have, at least one member who has past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background that results in the individual’s financial sophistication. Our board of directors has determined that Harvey J. Bazaar’s qualifications satisfy the NYSE MKT’s definition of financial sophistication and also qualify him as an “audit committee financial expert,” as defined under the rules and regulations of the Securities and Exchange Commission.

Audit Committee Information

Our audit committee is currently comprised of Harvey J. Bazaar (chairman), Walter Paulick, Kenneth McSweeney and Michael Faber. All of the members of our audit committee are “independent directors,” as defined under the NYSE MKT’s listing standards and are able to read and understand fundamental financial statements, including a company’s balance sheet, income statement and cash flow statement. Our audit committee is responsible for, among other things, oversight of our independent auditors, including their appointment and compensation, review of our quarterly and annual financial statements, monitoring our internal control over financial reporting and disclosure controls and procedures, discussing with management major financial risk exposures and the steps management has taken to monitor and control such exposures, including our risk assessment and risk management policies, and approving related party transactions.

Nominating and Corporate Governance Committee Information

Our board of directors has a nominating and corporate governance committee comprised of Michael Faber (chairman), Walter Paulick, Kenneth McSweeney, and Eric Rosenfeld, each an independent director under the NYSE MKT listing standards. Our nominating and corporate governance committee held two meetings during 2015. Our nominating and corporate governance committee is responsible for overseeing the selection of persons to be nominated to serve on our board of directors, and for developing and recommending corporate governance guidelines. Our nominating and corporate governance committee considers persons identified by its members, management, shareholders, investment bankers and others.

Procedure for Shareholders to Recommend Director Candidates

There have been no material changes to the procedures by which shareholders may recommend director nominees for our consideration since we filed our 2015 Proxy Statement on Schedule 14A on April 29, 2015.

Strategic Planning Committee Information

Our strategic planning committee is currently comprised of Eric Rosenfeld (chairman), Douglas McCrosson, Michael Faber and Terry Stinson. The main role of the strategic planning committee is to evaluate and analyze strategic options for the Company.

Item 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

References in this section to Employment Agreements are to the employment agreement in effect for each Named Executive Officer for the applicable period, giving effect to any and all amendments, unless context requires otherwise.

Overview

The Compensation Committee is composed of Kenneth McSweeney, Walter Paulick, Eric Rosenfeld and Terry Stinson (Chairman), each of whom is an independent director under NYSE MKT standards. The Compensation Committee oversees the compensation and employee benefit plans and practices of the Company, including its executive and non-employee director compensation plans. The Compensation Committee's goal is to ensure that executive compensation is competitive yet reasonable, supportive of organizational objectives and shareholder interests and designed to align the interests of executive officers with the Company's long-term performance and increase shareholder value.

This Compensation Discussion and Analysis concerns the compensation of Douglas McCrosson our Chief Executive Officer and Vincent Palazzolo our Chief Financial Officer, who are our Named Executive Officers.

At our 2012 annual meeting of shareholders, we conducted an advisory "Say on When Pay" vote, in which shareholders determined that a "Say on Pay" vote should be held every three years. In accordance with the shareholder vote, we held a "Say on Pay" vote at our 2015 annual meeting, in which shareholders approved the then-current compensation of our Named Executive Officers. The next "Say on When Pay" vote will take place at our annual meeting to be held in 2018. The Compensation Committee considers the results of shareholder advisory votes regarding compensation when reviewing compensation and making compensation decisions.

In 2013, the Compensation Committee modified the process for determining annual salary increases for the Named Executive Officers. In 2014, the Compensation Committee determined separation benefits and consulting compensation arrangements for Edward J. Fred in connection with his resignation as President and Chief Executive Officer of the Company.

During 2015, the Compensation Committee determined to reevaluate the Company's compensation policies and is in the process of finalizing new compensation policies for our Named Executive Officers. The Compensation Committee has engaged a compensation consultant to advise and assist it with developing compensation structures for Messrs. McCrosson and Palazzolo that strike an appropriate balance between maintaining competitive, yet reasonable, compensation levels and benefits and aligning pay with performance. The new compensation structures will include changing the Company's practice of providing long-term employment contracts to the Named Executive Officers in favor of at-will employment with industry competitive severance and other benefits. The new compensation structures will also provide the Compensation Committee with the flexibility to refocus cash and equity performance incentives annually. The Compensation Committee's objective in revising its compensation policies is to provide compensation incentives to its Named Executive Officers that will contribute significantly to the Company's performance.

Existing Compensation Policies and Practices

The Compensation Committee met four times during 2015 to review and discuss executive compensation matters. It has been the Company's practice to enter into three-year employment agreements with our Named Executive Officers and, if considered appropriate by our board of directors, to extend the term of the employment agreements for two additional years in the fourth quarter of the year prior to their expiration. In October 2013, the board extended the term of the Employment Agreements with each of Messrs. McCrosson and Palazzolo from December 31, 2015 to December 31, 2016. In connection therewith, the Compensation Committee tied annual base salary increases for the Named Executive Officers to achievement of performance goals established by the Compensation Committee, as described below.

In March 2014, Mr. McCrosson was appointed President and Chief Executive Officer and the Company entered into an amended and restated Employment Agreement with him.

Determinations of executive compensation are not based on a rigid formula, but focus on both objective and subjective factors that the Compensation Committee believes indicative of a Named Executive Officer's success as an officer of the Company. The Compensation Committee assesses the value of each Named Executive Officer's contribution to the Company, the Company's financial performance during recent fiscal years in light of prevailing business conditions, the Company's goals for the ensuing fiscal years, prevailing compensation levels of the chief executive officer at companies considered to be comparable to the Company and, with respect to each other executive officer, their total compensation relative to the chief executive officer's total compensation.

The Compensation Committee considers recent shareholder approval votes with respect to executive compensation. As mentioned above, the Compensation Committee is in the process of finalizing new compensation policies for the Named Executive Officers and has engaged a compensation consultant to advise and assist it with developing new compensation structures for Messrs. McCrosson and Palazzolo.

The Compensation Committee considers recommendations, if any, from our chief executive officer relating to the compensation of our other executive officers.

Existing Compensation Components

Each of the Employment Agreements, as amended, provides for three primary compensation components: base salary, a performance-based annual bonus and perquisites and other personal benefits, each of which is discussed in detail below.

Base Salary. In addition to the factors addressed above, the Compensation Committee focuses on whether the base salary of each Named Executive Officer is commensurate with the level of responsibility his position entails and with his experience. When determining base salary, the Compensation Committee endeavors to maintain a balance in the range of base salaries of the Named Executive Officers and their respective responsibilities. For fiscal years ended December 31, 2013, 2014 and 2015, Messrs. McCrosson's and Palazzolo's base salary under their respective Employment Agreements was:

	2013	2014	2015
Executive Officer			
	(\$)	(\$)	(\$)
Douglas McCrosson	253,000	313,462	333,125
Vincent Palazzolo	253,000	263,000	269,575

Before his appointment as President and Chief Executive Officer, Mr. McCrosson was the Company's Chief Operating Officer and his Employment Agreement provided for an annual base salary of \$265,000 for 2014. Upon his appointment as President and Chief Executive Officer, the Compensation Committee determined to increase his base salary to an annual rate of \$325,000 for the remainder of 2014 in consideration of his increased level of responsibility. Mr. McCrosson was paid 10 weeks of salary as COO and 42 weeks of salary as CEO in 2014.

The Compensation Committee's past practice has been to set annual base salary increases for each year during the term of the Employment Agreements. When renewing Employment Agreements in October 2013, the Compensation Committee determined that Messrs. McCrosson's and Palazzolo's annual base salary increases for 2015 and 2016 would now be tied to the achievement of individual performance goals. Accordingly, Messrs. McCrosson's and Palazzolo's Employment Agreements provide for discretionary base salary increases in 2015 and 2016, not to exceed 5% of the prior year's base salary, based upon the attainment of individual performance goals. Such goals are established by the Compensation Committee after consultation with Messrs. McCrosson and Palazzolo for the applicable year. The Compensation Committee believes that rewarding management based on achievement of individual performance goals provides additional incentives aligning the executive's goals with the Board's direction for the Company and the Company's overall performance. Based on Messrs. McCrosson's and Palazzolo's performance in relation to the 2014 performance goals, the Compensation Committee determined to increase each of their base salaries by 2.5% for 2015. Based on Messrs. McCrosson's and Palazzolo's performance in relation to the 2015 performance goals, the Compensation Committee determined to increase each of their base salaries by 3.0% for 2016.

Performance-Based Annual Bonus. Each of the Employment Agreements provides for an annual non-discretionary bonus based on changes in our revenues and earnings before interest, taxes, depreciation, and amortization ("EBITDA") from the prior year. Per each Employment Agreement, 25% of the bonus amount is determined by revenues and 75% by EBITDA. If growth targets are met on each metrics, each executive receives his baseline bonus. The current baseline bonus for Mr. McCrosson is 60% of 100% of his base salary, an increase from 45% of his base salary as provided in his Employment Agreement prior to appointment as President and Chief Executive Officer. The current baseline bonus for Mr. Palazzolo is 45% of 100% of his base salary.

The percent of base salary used to calculate the bonus amount decreases or increases depending upon the percent increase or decrease in revenues and EBITDA. For example, if EBITDA and revenues both increase by a 25% margin for a fiscal year ending on or before December 31, 2015, then Mr. McCrosson would receive a bonus equal to (1) 75% of 60% of 110% of his base salary plus (2) 25% of 60% of 110% of his base salary. If EBITDA decreases by 5% and revenues remain the same for a fiscal year ending on or before December 31, 2015, then Mr. McCrosson would receive a bonus equal to (1) 75% of 60% of 50% of his base salary plus (2) 25% of 60% of 75% of his base salary. The performance targets and corresponding percentage of base salary used to calculate the bonus (for the applicable fiscal year) are listed in the tables below. The amounts are adjusted pro ratably in the event EBITDA or revenue growth falls between two targets.

**Fiscal Years Ending on or before
December 31, 2014**

**Fiscal Years Beginning on or after
January 1, 2015**

	Percent of Base Salary Used to		Percent of Base Salary Used to
Growth	Calculate Bonus Amount	Growth	Calculate Bonus Amount
Decrease 15% or Greater	No Bonus	Decrease 15% or Greater	No bonus
Decrease 10%	75% Decrease	Decrease 10%	75% Decrease
Decrease 5%	50% Decrease	Decrease 5%	50% Decrease
Flat	25% Decrease	Flat	25% Decrease
Increase 5%	10% Decrease	Increase 2%	10% Decrease
Increase 10%	Baseline	Increase 5%	Baseline
Increase 15%			